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Tax Tips for Drug Stores

Sales and Use Taxes

January 1996

Pamphlet No. 27 • LDA

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PREFACE

This pamphlet is designed for owners, managers, and others who operate drug stores. It provides information on the taxability of common transactions, such as sales of prescription drugs and sales of magazines, food products, and so forth.

If you cannot find the information you are looking for in this booklet, please contact your local Board office. Staff will be glad to answer your questions. Telephone numbers for Board Offices are found on page 14.

This publication supplements Pamphlet 73, *Your California Seller's Permit*, which covers the following topics: obtaining a permit; using a resale certificate; collecting and reporting sales and use taxes; buying, selling, or discontinuing a business; keeping records; and so forth. If you would like to obtain a copy, please contact your local Board office.

We welcome your suggestions for improving this pamphlet. If you would like to comment, please complete the reader survey found on page 17 or send your suggestions to:

Audit Evaluation and Planning Section
State Board of Equalization
450 N Street MIC 40
P.O. Box 942879
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Note: This pamphlet summarizes the law and applicable regulations in effect as of the date on the cover. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this pamphlet and the law, the law is controlling.

1. Sales of Medicine, Medical Supplies, and Medical Appliances

This chapter provides information on the taxability of sales of medicine made by drug stores. See chapter 2 for information on other types of sales, such as sales of food products, newspapers, and giftware. If you have a question that is not answered here, please call us for help (see page 14).

Introduction

In general, you are not required to report tax on retail sales of medicine that are

- Prescribed for the treatment of a human being by a licensed physician, podiatrist, or dentist and dispensed by a registered pharmacist in accordance with law (see page 4 for a definition of registered pharmacist), or
- Sold to a licensed physician, dentist, podiatrist, or health facility (see page 4 for definition of *health facility*) for the treatment of a human being, or
- Sold to the state of California or any of its political subdivisions for use in the treatment of a human being by a medical facility or clinic maintained by the state or any of its political subdivisions (such as a city or county, or hospital district).

To be exempt from tax, the item sold must qualify as a medicine and be sold as described above, or it must or be specifically exempted under the Sales and Use Tax Law. Otherwise, the sale is generally subject to tax.

Medicine defined: According to the Sales and Use Tax Law, medicine means any substance or preparation intended for use by external or internal application to the human body in the diagnosis, cure, mitigation, treatment, or prevention of disease and commonly recognized as a substance or preparation intended for that use. As explained in the following pages, certain supplies, devices, and appliances are specifically included within the definition of medicine, while others are specifically excluded.

Taxability of Specific Types of Sales

The following information discusses the taxability of medicines and other medical items. It is presumed that the items being sold will be used to treat a human being rather than a pet or other animal.

Prescribed Medicines

You are not generally required to report tax on sales of prescribed drugs and other preparations or substances used to treat, diagnose, cure, mitigate, or prevent disease. To be exempt, the drug or preparation must be prescribed by a licensed physician, dentist, or podiatrist, and the prescription must be filled by a registered pharmacist.

Over-the-Counter Medicines

Sales of over-the-counter medicines are taxable unless prescribed by a licensed physician, dentist, or podiatrist. Examples of over-the-counter medicines include aspirin, cough syrups, cough drops, throat lozenges, and so forth.

Diabetic Supplies

Sales of insulin and insulin syringes are not subject to tax when sold by a registered pharmacist for treatment of diabetes as directed by a physician. This exemption does *not* apply to related supplies and appliances. For example, blood sugar test packages, such as electronic monitors, test strips and lancets, are subject to tax whether or not they are used in connection with the treatment of diabetes.

Hemodialysis Products

Hemodialysis products supplied on order of a licensed physician to a patient by a registered pharmacist are not subject to tax.

Taxable Medical Supplies

— Items That Are Not Considered Medicines

Some medical supplies are not considered medicines and are subject to tax even when prescribed by a physician. The following are examples:

- Thermometers, hypodermic needles. (For information on sales of insulin syringes, see “Diabetic Supplies” above.)
- Articles that are in the nature of bandages, splints, pads, compresses, supports, dressings. See also *Note* below.
- Articles that are in the nature of instruments, apparatus, contrivances, appliances, devices or other mechanical, electronic, optical or physical equipment or articles or their component parts and accessories. See also *Note* below.
- Arch supports, cervical pillows, exercise weights (boots or belts), hospital beds, orthopedic shoes and supportive devices (unless an integral part of a leg brace or artificial leg), plastazote inserts, plastazote shoes, plastic shoes (custom or ready-made), sacro-ease seats, shoe modifications, spenco inserts, traction units (other than those fully worn on the patient), thermophore pads, foot orthoses. See also *Note* below.

Note: Prosthetic and orthotic devices that can be fully worn on or in the body are generally considered medicines and are not subject to tax — please see following sections for more information.

Prosthetic Devices

Certain prosthetic devices, and their replacement parts, are considered medicines and are not subject to tax when furnished according to a written prescription from a physician or podiatrist.

Prosthetic devices are devices that are designed to be worn on or in the body to replace or assist the functioning of a natural part of the body. To qualify for the exemption, the device must be capable of being worn fully on or in the body. A prosthetic device implanted for temporary use during surgery would not qualify for the exemption.

The following prosthetic devices are not considered medicines and are generally subject to tax: auditory, ophthalmic and ocular devices or appliances, or dental prosthetic materials and devices.

Mammary Prostheses and Ostomy Appliances and Supplies

Sales tax does not apply to mammary prostheses or to appliances and related supplies that are necessary as the result of any surgical procedure that creates an artificial opening in the body for the elimination of natural waste. (A written prescription is not required for these

devices in order to be tax exempt. Under the Sales and Use Tax Law, they are presumed to be prescribed.)

Examples of qualifying mammary prostheses and ostomy appliances and supplies include:

adhesive spray and remover	drainable stoma bags and tubing
antacid used externally as a skin ointment	filler pads
belts	karaya rings
bras to hold a mammary prosthesis in place	loop ostomy supplies
catheters used as a result of an artificial opening created in the human body	lymphedema arm sleeves
closed stoma bags	nonallergic paper tape and gauze
colostomy bags	skin bond cement
deodorant used on the person of the user	skin gel
	tincture of benzoin applied topically as a protective tubing
	urinary drainage appliances

Orthotic Devices

Certain orthotic devices and their replacement parts are considered medicines and are not subject to tax when sold as described on page one.

Orthotic devices are devices that are designed to be worn as a brace, support, or correction for the body structure. To qualify for the exemption, the device must be capable of being fully worn on the user. (See *Note* below regarding orthopedic shoes.)

Examples of prescribed devices that are not taxable when used as indicated above include:

abdominal binders	postoperative knee immobilizers
ace bandages	rib belts and immobilizers
ankle braces	rupture holders
anti-embolism stockings	sacral belts
casts and cast components	sacro-lumbar back braces
cervical supports	shoulder immobilizers
cervical traction devices	slings
clavicular splints	stump shrinkers
elbow supports	support hose (and garter belts used to hold them in place)
head halters	trusses
neck collars	wrist and arm braces
pelvic traction devices	
post-surgical corsets	

Note: shoes and supportive devices for the foot—These items are not exempt from tax unless they are an integral part of a leg brace or artificial leg or are custom-made biomechanical foot orthoses (if you sell biomechanical foot orthoses, please request a copy of Regulation 1591, *Medicines and Medical Supplies, Devices, and Appliances*, for more information regarding the taxability of their sale).

See also page 2, "Taxable Medical Supplies," for information on items such as cervical pillows, arch supports, and splints that are generally subject to tax.

Other Medical Items

Although the items listed below are not typically sold by drug stores, their sale is generally exempt from tax (when furnished according to a written prescription). If you sell any of these items, please request a copy of Regulation 1591 for more information on their taxability (see page 15 for ordering information).

- Crutches, canes (including white canes used by the legally blind), quad canes, walkers, and wheelchairs
- Artificial limbs, eyes, intraocular lenses, and ear implants

Registered Pharmacist Defined

According to the Business and Professions Code, a registered pharmacist is a person to whom a certificate has been issued by the Board of Pharmacy (under the provisions of Section 4085 of the Code).

Health Facility Defined

As noted on page one, sales of medicine to health facilities are not generally taxable.

For purposes of the Sales and Use Tax Law, a health facility (as defined in the Health and Safety Code) means any facility that is organized, maintained, and operated for the diagnosis, care, prevention, and treatment of human illness, physical or mental, including convalescence and rehabilitation and including care during and after pregnancy, or for any one or more of these purposes, for one or more persons, to which the persons are admitted for a 24-hour stay or longer.

Reporting Sales Paid by Medi-Cal

All sales of prescriptions, *including those paid by Medi-Cal*, must be reported on line 1 of your sales and use tax return (gross sales). The sale must be reported for the tax reporting period in which the prescription is filled. You can deduct your sales of exempt prescription medicine on the same return (line 10e). Care should be taken not to include taxable medical supplies on line 10e.

2. Other Drug Store Sales

As a drug store operator, you most likely sell items other than medicines and medical supplies. This chapter explains how tax applies to those other sales. If you have any questions regarding how to report tax on a sale, please call one of our field offices for help (see page 14).

Taxable and Nontaxable Sales — An Overview

*See pages 6-11 for more
information on the types of
sales listed on this page.*

If you have are selling an item that is not listed below or discussed in the following pages, please contact a Board office. Staff will be glad to help you with your question (offices addresses are located on page 14).

■ **Taxable Sales**

Sales tax generally applies to sales of:

- Toys, hardware, and household goods
- Books, newspapers, periodicals
- Cosmetics
- Alcoholic beverages
- *Carbonated* soft drinks and mixes
- Tobacco products
- Dietary supplements
- Soaps or detergents
- Cameras and film
- Clothing
- Ice
- Sporting goods
- Pet food and supplies
- Hot prepared food products, and food sold for consumption on your premises (for more information, see Pamphlet 31, *Tax Tips for Grocery Stores*)
- Over-the-counter medicines (unless prescribed—see page one)
- Medical supplies such as bandages, thermometers, and hypodermic needles (see also page 2)

■ **Nontaxable Sales**

Sales tax generally does not apply to sales of:

- Food products (unless sold for consumption at your place of business or sold as hot prepared foods).
This includes baby food, artificial sweeteners, candy, gum, ice cream, ice cream novelties, popsicles, fruit and vegetable juices, olives, onions, and maraschino cherries.
Food products also include beverages and cocktail mixes that are neither alcoholic nor carbonated. The exemption applies whether the beverage or mix sold in liquid or frozen form.
- Water. Bottled noncarbonated, noneffervescent water is exempt from tax.
- Gum (medicated and nonmedicated).
- Amounts received for bottle deposits (tax does apply to the California Redemption Value — see page 8)

Food Product Sales

Food products sold for human consumption are not generally subject to tax. If an item does not qualify as a food product, or if it is not sold for human consumption, it is generally subject to tax.

For example, the following items are not considered food products and, as a result, are subject to tax:

- Ice
- Alcoholic beverages
- Coloring extracts
- Tobacco products
- Carbonated beverages and mixes (see note below)
- Dietary supplements (see page 7)

Likewise, a food product sold for consumption by a dog, cat, bird and other domestic pets or for use as fish bait is subject to tax because it is not sold for human consumption.

Note: carbonated fruit juices. Carbonated products that qualify as 100 percent natural fruit juice are not subject to tax. If the fruit juice includes a preservative, such as sodium benzoate, or any other additive, it is not considered a natural fruit juice and is subject to tax.

Sales of Hot Prepared Foods / Food Operation Sales:

If you sell hot prepared food products (such as hot sandwiches or hot popcorn), or if you operate a food service (such as a soda fountain), you should request a copy of Pamphlet 31, *Tax Tips for Grocery Stores*, for more information. This pamphlet can be ordered from a nearby Board office, or you can write or fax our Supply Unit and ask that a copy be mailed (see pages 14-15).

Combination Packages

If you sell a combination package that includes nonfood products and exempt food products, the package may be nontaxable or partially taxable. To determine how to apply tax, you must look at the retail value of the nonfood products and the retail value of the container.

Nonfood products. The nonfood products are taxable if their retail value represents more than 10 percent of the total retail value of the contents.

Container. The container is taxable if its retail value exceeds 50 percent of the retail value of the entire package.

Example 1

You are selling a gourmet gift basket for \$100. It includes the following components:

	<i>Retail Value</i>
Fruit, cheese, crackers (exempt food products)	\$ 26.00
Wine and wine glasses (nonfood products)	20.00
Subtotal — contents: \$46.00	
Basket	54.00
Total:	\$100.00

The nonfood products are taxable because they represent more than 10 percent of the retail value of the contents ($\$20 \div \$46 = 43\%$).

The basket is taxable because its retail value exceeds 50 percent of the retail value of the entire package ($\$54 \div \$100 = 54\%$).

You would compute and report tax on the nonfood products and the container ($\$20 + \$54 = \$74$).

Example 2

You are selling an Easter basket filled with chocolate eggs. The eggs represent 90 percent of the retail value, and the basket and wrapping represent 10 percent of the retail value. The entire package would be nontaxable.

Note: If a combination package is partially taxable, you must segregate in your records the retail selling price of the taxable and nontaxable components

***Dietary
Supplements***

Sales tax generally applies to preparations in liquid, powdered, granular, tablet, capsule, lozenge and pill form sold as dietary supplements or adjuncts. If an item is sold in one of those specified forms, the following methods may be used to determine its taxability.

- If an item is described on its label or package as a food supplement, food adjunct, dietary supplement, or dietary adjunct, its sale would be subject to sales tax.
- If an item is prescribed or designed to remedy specific dietary deficiencies or to increase or decrease generally those areas of human nutrition dealing with vitamins, proteins, minerals or calories, its sale would be subject to sales tax.
- If an item is in one of the specified forms, it may be taxable if it is generally recognized as a dietary supplement, even though it is not described as such on its package and does not emphasize its vitamin, protein, mineral or calorie content. Examples include cod liver oil, wheat germ oil, and amino acid products.

***Snack Foods, Candy,
Confectionery***

Sales of snack foods, candy, and confectionery are not subject to tax. During the period July 15, 1991 through November 30, 1992, such sales were taxable.

Water

Bottled Water. Sales of carbonated, effervescent bottled water are taxable.

Sold Through Dispensers. Sales of purified drinking water dispensed through vending machines are exempt provided that the water enters the vending machine through local supply lines and is dispensed into the customer's own container.

Chewing Gum

Sales of chewing gum are exempt from tax (including both nonmedicated and medicated gum).

Bottle Deposits

Deposits received on returnable containers are not subject to sales tax. This is true even though the bottles may not be returned.

California Redemption Value

The California Redemption Value (recycling fee) applies to nonrefillable containers used for the following beverages.

- Beer and other malt beverages
- Carbonated mineral and soda waters
- Carbonated soft drinks in liquid form
- Wine and distilled spirits cooler beverages

If the sale of the beverage is subject to tax, the redemption value is also subject to tax. Tax applies to the amount received from the sale of a beverage and its container and the amount charged for the redemption value of the container. The redemption value is not a considered a deposit under the Sales and Use Tax Law and may not be deducted from gross receipts on your tax return.

As a retailer, if your sales and storage areas totals more than 4,000 square feet, you are required to separately state the redemption value in all advertising and on the shelf. If possible, you should also separately state the redemption value on your customer cash register receipts.

The minimum redemption value set by law is currently two and one-half cents (2.5¢) per container.

Film Processing

Tax generally applies to all charges involved in processing film except for the following:

- Charges for tinting or coloring photographs that are furnished by the customer.
- Separately stated charges for developing color or black and white negatives. This is to be distinguished from charges for developing film by the reverse process method, which is subject to tax. (The reverse process method consists of developing the film to a negative and reversing it into a positive, usually in the form of a slide or a home movie film.)

Lottery

California lottery sales are not taxable and should not be included as part of gross receipts on your sales and use tax return. (You should segregate exempt lottery receipts from other sales in your records. If you do not adequately document exempt lottery receipts, such sales could be confused with taxable sales.

Newspapers, Periodicals, and Books

Sales of newspapers and periodicals are generally taxable. Tax also applies to sales of such items as catalogs, maps, and books. You should include these items as part of your reported taxable sales.

Rentals

Video Tapes and Equipment

Rentals of video cassettes, videotapes, or videodiscs for private non-commercial use are subject to tax. Tax applies to such rentals even if you paid sales tax reimbursement to your vendor or reported use tax on the purchase price of the cassette, tape, or disc.

If you rent video equipment and video cassettes together for a *lump-sum rental charge*, tax applies either to the entire charge or to a portion.

If you did not pay tax on your purchase of the video equipment (you purchased the equipment using a resale certificate, for example), tax applies to the entire rental charge to your customer.

If you paid sales or use tax on your purchase of the video equipment, you should charge your customer tax only for the portion of the rental charge attributable to the video cassettes (tax does not apply to the portion attributable to the video equipment). The amount of tax due is based on the ratio of the fair rental value of the cassettes and equipment compared to the lump-sum rental charge.

Carpet Cleaners

You must report tax on your rental receipts for carpet cleaners if you purchased the equipment without payment of sales or use tax (use tax must be paid for the reporting period in which the equipment was first placed into rental service). If you paid sales or use tax on your purchase price for the equipment, do not report tax on the rental receipts (no additional sales tax is due).

Soaps and Cleansers

When the total rental charge includes soap and/or cleansers, you are considered a *retailer* of these items (and may purchase them for resale):

- When tax is charged on total rental receipts
- When a separate charge is made for the soaps

You are considered a *consumer* of soaps and cleansers (and must pay sales or use tax on your purchases of those items):

- When rental receipts from the cleaners are not subject to tax and no separate charge is made for the soaps

Sales of Capital Assets

Sales tax applies to retail sales of capital assets such as showcases, gondolas, and cash registers that have been used in your business. This holds true whether the assets are sold intermittently or are included with the sale of your business.

Self-Consumed Merchandise

(merchandise used for purposes other than resale)

If you purchase taxable merchandise for resale (without paying sales tax) and divert the merchandise to some other use, you must report use tax based on your purchase price for the merchandise. Examples of such use include cigarettes, soap, and other taxable items taken home by an owner; given to friends, associates or employees; or donated to certain organizations. See pages 12-13, "Taxability of Purchases," for more information.

Trading Stamps

Trading stamps are considered equivalent to a cash discount allowed your customers measured by the cost of the stamps to you. You can deduct the cost of these stamps on your return; however, the deduction is allowable only on stamps given in connection with *taxable sales*. In computing the deductible amount you must prorate the cost of trading stamps between the taxable and exempt sales *on which stamps are given*.

Vending Machines

Commissions received from vending machine operators who have placed vending machines on your premises are not subject to tax.

Some retailers, however, sell their own merchandise through vending machines. Regulation 1574, *Vending Machines*, explains the application of tax to sales through vending machines and may be obtained from a nearby Board office (see page 14).

Coupon Redemption

The coupon redemption plans used by drug stores generally fall into two categories: coupons sent out or published by individual drug stores and coupons sent out or published by manufacturers. These categories are discussed below.

Note: The following information describes the taxability of coupons that are redeemed for taxable items. Sales tax does not apply to coupons that are used to buy nontaxable items, such as exempt food products.

Retailers' Coupons

If you publish or send out coupons that are redeemable for merchandise at your store and if you are not reimbursed in any manner by a manufacturer, the face value of the coupon is a cash discount. Consequently, tax applies to the selling price *after the discount*.

Cash discounts are deductible from reported taxable sales if the full amount of the sale, without deduction for the discount, is included in your reported total sales. (Of course, if a manufacturer reimburses you under this plan based on coupons redeemed, the amount you receive is taxable and must be included as part of your gross receipts. It cannot be deducted.)

Manufacturers' Coupons

When a manufacturer publishes or sends out coupons stating an amount a product's selling price will be reduced, the amount you receive from the manufacturer for redemption of these coupons, excluding any handling allowance, represents a part of your gross receipts from the sale of the product, and is not a deductible item. Tax applies to the total gross receipts from the sale of taxable merchandise even though part of the sales price is paid by the customer and part is paid by the manufacturer.

The amount you receive from the manufacturer for the handling charge is not a part of your gross receipts. Many stores, however, use coupon redemption centers that charge for their services. If the service charge made by the coupon redemption center is greater than the handling charge permitted by the manufacturer, the excess charge may not be deducted from your gross receipts.

Since the amount of a manufacturer's redemption is usually the face value of the coupon, no adjustment to your reported sales is necessary if your recorded sale of the product was not reduced by the face value of the coupon. If, however, your recorded sales amount has been reduced by the amount of the coupon, then the redemption received must be included in your reported sales.

Federal Food Stamps

Double-Discount Coupons

When a double-discount coupon is redeemed—consisting of a combined manufacturer's coupon and the retailer's own store discount coupon—sales tax must be computed on the regular selling price of the taxable merchandise after deducting only the cash value or face value of the retailer's own discount coupon.

Sales tax does not apply to tangible personal property sold in exchange for federal food stamp coupons. This is true even if the item would normally be subject to tax if purchased without a food stamp coupon (for example, purchases of nonalcoholic carbonated beverages, bottled water, ice, and food coloring extract).

Bookkeeping Requirements. If you make sales in exchange for food stamps, you must account for the sales of normally taxable items purchased with food stamps in order to properly report your sales and use tax liability. Rather than separately accounting for those sales, you can use one of the following two approved methods for computing the allowable deduction for redeemed food stamp coupons:

Method 1. You may take a deduction on your sales and use tax return of two percent of the total amount of food stamp coupons redeemed in the period for which the return is filed.

Method 2. You may deduct more than the two percent allowed in Method 1 if, using the calculation shown below, the result is higher than two percent.

Formula. Total purchases of normally taxable items eligible to be purchased with food stamps ÷ total purchases of normally taxable items eligible to be purchased with food stamps plus total purchases of normally exempt food products.

Example. Assume the following total purchases for the period of your tax return:

Normally taxable items eligible to be purchased with food stamps \$ 5,000 (a)

Exempt food products 130,000 (b)

You would calculate the allowable deduction as follows:

$$\begin{array}{rcl} \text{(a)} & \frac{5,000}{\text{(a+b)} \quad 135,000} & = 3.7\% \end{array}$$

3. Taxability of Purchases

Under certain circumstances, you are required to pay tax to the Board on your purchases. This chapter describes typical situations in which tax may apply to purchases made by your business.

Use Tax

If you purchase taxable merchandise for resale (without paying sales tax) and divert the merchandise to some other use, you must report use tax based on your purchase price for the merchandise. The cost of such merchandise should be reported on Line 2 of your tax return.

The rate for use tax is the same as the sales tax rate effective for your location.

The sections below describe typical situations in which use tax applies to purchases made by retailers.

■ Merchandise purchased for resale

Generally, when you purchase merchandise you intend to resell, you do not pay sales or use tax at the time of purchase. Sales tax applies to your subsequent retail sale of the merchandise.

However, if you purchase taxable merchandise for resale but use it for other business or personal purposes, you must report use tax to the Board. Examples of such use include cigarettes, soap, and other taxable items taken home by an owner; given to friends, associates or employees; or donated to certain organizations.

Note—donations to organizations: You are not required to report use tax if you donate property from your resale inventory to a *qualified* organization, as defined in Regulation 1669, *Demonstration, Display, and Use of Property Held for Resale — General*. Donations to organizations that do not qualify under this regulation are subject to tax. (To order a copy of Regulation 1669, please see page 15.)

If you paid sales tax reimbursement to your supplier for items you purchased for business or personal use, but resell the items first, you can take a deduction on your tax return when you report the sale. You may deduct the amount you paid before sales or use tax was added, under *Cost of Tax-Paid Purchases Resold* on your return.

■ Items used for demonstration and display

Merchandise you use exclusively for demonstration and display while it is for sale is not subject to use tax. Sales tax applies when the item is sold.

If you use a demonstration or display item for any additional purpose, including personal use, the purchase price must be reported under *Purchases Subject to Use Tax* on your return. Again, sales tax applies to the subsequent retail sale of the merchandise. For more information, see Regulation 1669, *Demonstration, Display, and Use of Property Held for Resale — General*, available from a Board office or the Board's Supply Unit (see pages 15).

Note: If you know at the time of purchase that you will not resell an item, you cannot use a resale certificate for the purchase.

■ Purchases from out-of state retailers

In general, if you purchase taxable merchandise from an out-of-state retailer (without paying California tax) and use the merchandise for a purpose other than for resale, the purchase is subject to use tax and must be reported on your return.

Credit for payment of another state's tax. If you paid another state's sales tax on the purchase, you may receive credit for that payment by:

- Reporting the amount of the purchase under *Purchases Subject to Use Tax*, and
- Deducting the amount of tax paid to the other state. Enter the amount under *Taxes Imposed by Other States* on your return. You can only claim a credit up to the amount of California tax due.

Some out-of-state retailers are authorized to collect and pay California use tax. If your sales receipt indicates that the correct amount of California use tax has been collected on your purchase, you do not need to report that purchase on your return.

Note: You cannot receive credit for sales tax paid to another state if the tax should not have been collected (it was improperly assessed).

Business Supplies and Equipment

Purchases of items used in your business — for example, display fixtures, equipment, price tags, paper bags, advertising, bookkeeping, maintenance materials, and so forth — are subject to sales or use tax. If bought from an out-of-state seller who does not charge California use tax, the purchase must be reported on your return, under *Purchases Subject to Use Tax*. If you later sell any of these items, the sale would be taxable.

Wrapping and Packaging Supplies

You may use a resale certificate to purchase wrapping and packaging supplies (e.g., wrapping paper, paper bags, or twine) that you will use to package merchandise you sell, provided:

- You supply these items with your sales; and
- You do not require your customers to return them to you.

You are not required to charge separately for these items or report tax to the Board on their sale.

However, if you charge your customers a deposit on feed sacks or similar items, or otherwise require their return, they are considered returnable containers rather than items purchased for resale. Consequently, you must pay sales tax when you buy these items from your supplier.

For more information you may wish to obtain a copy of Regulation 1589, *Containers and Labels*.

4. Field Offices

Staff located in the Board of Equalization field offices listed below will be glad to answer your questions regarding the taxes administered by the Board. If you already have a seller's permit and are calling regarding your account, you will receive quicker assistance if you have the number of your permit available when you call.

Taxpayers' Rights Advocate

If you have been unable to resolve a disagreement with the Board, or if you would like to know more about your rights under the Sales and Use Tax Law, please contact the Taxpayers' Rights Advocate office for help. Call 916-324-2798, or FAX 916-323-3319; or write to:
Taxpayers' Rights Advocate, MIC: 70
State Board of Equalization
P.O. Box 942879
Sacramento CA 94279-0070

City	Area Code	Number	City	Area Code	Number
Bakersfield	805	395-2880	San Marcos	619	744-1330
City of Industry	310	908-5280	San Mateo	415	573-3800
Concord	510	687-6962	San Rafael	415	472-1513
Culver City	310	342-1000	Santa Ana	714	558-4059
El Centro	619	352-3431	Santa Cruz	408	462-9496
Eureka	707	445-6500	Santa Rosa	707	576-2100
Fresno	209	248-4219	Stockton	209	948-7720
Laguna Hills	714	770-2157	Torrance	310	516-4300
Marysville	916	741-4301	Union City	510	429-7090
Norwalk	310	466-1694	Vallejo	707	648-4065
Oakland	510	286-0347	Van Nuys	818	901-5293
Rancho Mirage	619	346-8096	Ventura	805	654-4523
Redding	916	224-4729	Visalia	209	732-5641
Riverside	909	680-6400	Offices for Out-of-State Accounts		
Sacramento	916	255-3350	Chicago, IL	312	201-5300
Salinas	408	443-3008	Houston, TX	713	531-3450
San Diego	619	525-4526	New York, NY	212	697-4680
San Francisco	415	396-9800	Sacramento, CA	916	322-2010
San Jose	408	277-1231			

5. For More Information

For More Information

You may obtain copies of publications and regulations through your local Board office. If you plan to visit one of our offices, please call ahead to ensure that the publication is available (see page 14).

You may also write and order publications from:

*Supply Unit
State Board of Equalization
3920 West Capitol Avenue
Suite 200
West Sacramento, CA
95691*

FAX: 916-372-6078

You may:

- Contact your local Board office and talk to a representative about how to apply the law or complete a form.
- Request copies of the laws and regulations that apply to your business.
- Write to a local Board office for advice regarding the taxability of a particular sale or transaction.

Note: For your protection, it is best to get tax advice in writing. You may be relieved of tax, penalty, or interest charges that are due on a transaction if the Board determines that it gave you erroneous written advice regarding the transaction. For this relief to apply, a request for advice must be in writing, identify the taxpayer to whom the advice applies, and fully describe the facts and circumstances of the transaction.

- Enroll in a basic sales and use tax class offered by some local Board offices. You should call ahead to find out whether your local office conducts a class for beginning sellers.

Regulations

1528	Photographers, Photostats Producers, Photo Finishers and X-Ray Laboratories
1574	Vending Machines
1589	Containers and Labels
1590	Newspapers and Periodicals
1591	Medicines and Medical Supplies, Devices, and Appliances
1602	Food Products
1603	Taxable Sales of Food Products
1642	Bad Debts
1660	Leases of Tangible Personal Property — in General
1669	Demonstration, Display, and Use of Property Held for Resale — General
1671	Trading Stamps and Related Promotional Plans
1698	Records
1700	Reimbursement for Sales Tax
1821	Foreword — District Taxes
1823	Application of Transactions (Sales) Tax and Use Tax

Publications

The letters V, K, C, or S following a publication indicate the pamphlet is available in Vietnamese, Korean, Chinese, or Spanish:

44	<i>District Taxes</i>	
46	<i>Tax Tips for Leasing of Tangible Personal Property in California</i>	
70	<i>The California Taxpayer's Bill of Rights</i>	(V,K,C,S)
73	<i>Your California Seller's Permit</i>	(V,K,C,S)
74	<i>Closing Out Your Seller's Permit</i>	(V,K,C,S)
75	<i>Interest and Penalty Payments</i>	
76	<i>Audits and Appeals</i>	(K,C,S)
77	<i>Publications (general listing—Board publications)</i>	

As a registered seller, you also receive the *Tax Information Bulletin*, which includes articles on the application of law to specific types of transactions, announcements regarding new and revised publications, and other articles of interest to registered sellers.

What do you think of this pamphlet?

We hope that this newly revised tax tip pamphlet will help you to better understand the Sales and Use Tax Law as it applies to your business.

We would appreciate it if you could take a few minutes to give us your comments and suggestions for this pamphlet, so that we can improve future revisions. We'd also like to have some information that will help us make our publications program more useful to you. Please answer the questions below and on the reverse, remove the page, and return it to us. It is designed as a postage-paid self-mailer: you may fold the page as indicated and seal it with two pieces of tape.

Thank you for taking the time to respond to this survey.

Pamphlet Comments and Suggestions

1. Does this pamphlet help you apply the sales and use tax in your business operations?
2. Are there any sections of the pamphlet that you find particularly helpful? (please note)
3. Are there any sections of the pamphlet that you find confusing? (please explain, if possible)
4. Are there any topics not addressed in this pamphlet that you would like us to include?
5. Are there any sections of the pamphlet that you feel are incomplete? What would you add to them?
6. Do you have any other comments or suggestions for improving this pamphlet?

(Please answer questions on reverse.)

date_____

tape

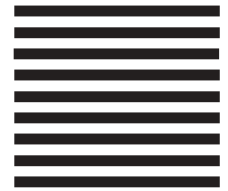


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Reader Survey Information (please check all boxes that apply)

What is the nature of your business?

How long have you been in business?

- ☐ less than one year ☐ 1-5 years
☐ 6-10 years ☐ more than 10 years

Did you receive a copy of this pamphlet (or an earlier version) when you applied for or received your seller's permit?

- ☐ yes ☐ no ☐ not sure

How did you find out about this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Tax Information Bulletin
☐ Publications listing in a Board pamphlet
☐ Other (please list) _____

Where did you obtain this pamphlet?

- ☐ Board field office
☐ Board auditor
☐ Board Supply Unit
☐ Other (please list) _____

Do you use any other Board publications to help you apply or understand the California Sales and Use Tax Law? (please list) _____

